
*Technical Support and
Business Assistance
Subgroup Report*

TABLE OF CONTENTS

- 1.0 Introduction
- 2.0 Statutory Framework and Program Expectations
- 3.0 Issues: Identification, Analysis, and Validation
- 4.0 Recommendations

1.0 Introduction

Mayor's Order 2002-62, which established the Task Force on Local, Small and Disadvantaged Business Opportunity Development, charged the Technical Support and Business Assistance Subgroup with examining the strategies and approaches that the District could utilize in providing technical assistance to local, small, and disadvantaged businesses in the District. In addressing this subject, the Subgroup focused on identifying the specific technical support and business assistance needs of LSDBEs and companies seeking LSDBE certification. The Technical Support and Business Assistance Subgroup sought to identify opportunities to improve the coordination of the numerous technical support and business services that currently exist in the District. The Subgroup interviewed LSDBE businesses seeking LSDBE status, prime contractors, staff within the District's Office of Contracting and Procurement, DC Small Business Development Center Network, and business development officers within the U.S. Small Business Administration's (SBA) District Office.

The primary needs stakeholders identified were related to demystifying and simplifying the certification process; especially as compared to certifications by other states and the Federal Government, understanding and expanding LSDBE capabilities and capacity, and gaining access to information about contract opportunities, bonding, insurance, and financing. Whether these needs can best be met by OLBD or existing business support organizations and how existing programs could be better coordinated was of significant importance to the Subgroup.

2.0 Statutory Framework And Program Expectations

DC Law 12-268 does not provide a clear statutory mandate for OLBD to directly provide or to fund technical assistance programs for local, small, and/or disadvantaged businesses. The law does offer the opportunity for such activities through its mandates. Section §2-217.03, entitled "Assistance programs for local business enterprise contractors, disadvantaged business enterprise contractors, and small business enterprise contractors," gives the Mayor the authority to establish programs that will assist contractors in achieving the goals established in DC Law 12-268. These provisions relate only to bid preference, set-aside, joint venture and mentoring and are designed to assist in the bidding and contract award process only.

Further, Section §2-1205.3 identifies fourteen statutory functions of OLBD, and the functions numbered 3, 4 and 14 are the clearest link to OLBD providing the technical support and business assistance that is needed by certified businesses. Section §2-1205.3 03) requires that OLBD "stimulate and foster greater opportunities for businesses, certified as local, small and disadvantaged businesses, to participate in District procurement for goods and services than would otherwise be possible." Section §2-1205.3 04) requires that OLBD "educate, disseminate, and market contract opportunities information to those businesses already holding certification as local, small, or disadvantaged business enterprises." Under Section §2-1205.03 14),

the agency is required to “review contracting problems and make further recommendations that increase small, local, and disadvantaged contractor participation with the District government.”

Although OLBD does not currently have funding allocated specifically for the delivery of technical assistance to LSDBEs, the Task Force believes that the current law and implementing statutes require much more than is currently provided through OLBD. Tremendous flexibility is required for OLBD to provide or support the provisioning of technical assistance and business support to LSDBEs, based on their unique needs. Specifically, sections of the law that speak to knowledge of contracting opportunities, joint ventures, mentoring relationships, and bond waivers offer opportunities for additional support, outreach, networking and training programs for certified LSDBEs. The Technical Support and Assistance Subgroup believes that the law that created OLBD provides the opportunity for the agency to better serve the needs of LSDBEs. To ensure the preparedness of these businesses in meeting the procurement needs of the District requires expanding program functions to enhance the technical assistance and business development support that is offered. This technical assistance can be provided through District government resources. Increased coordination of the many sources of technical assistance, business training, and business services currently available in the District is also required. The Task Force recommends that these services be made available to businesses that have already been certified as LSDBEs and to those seeking LSDBE certification or recertification. These findings are supported by the February 28, 2002 Proposal for the District of Columbia Small Business Development Program, as commissioned by the District’s Office of the Deputy Mayor for Planning and Economic Development.

In the absence of a clear statutory mandate, the Task Force has also found that neither OLBD nor OCP may have the capability to meet the technical assistance needs of LSDBEs. This issue requires more extensive assessment. It was important for the Subgroup to analyze this issue, for private developers, agency directors and agency procurement officers regard the capabilities of many LSDBEs as very limited. There is a feeling among these stakeholder groups that many LSDBEs lack the skills, manpower, and financial resources needed to compete successfully.

There is some lack of clarity about OLBD’s role in providing technical assistance. OLBD staff does not see technical assistance as one of its primary roles. But members of the Local Business Opportunity Commission (LBOC) maintain that there are three primary functions of OLBD, and they are: 1) certification, 2) advocacy, and 3) technical assistance.

3.0 Issues: Identification, Analysis and Validation

Overall, stakeholder expectations around technical assistance are far greater than the level of services that OLBD’s current resources allow it to provide. Many stakeholders expressed a desire for the Office of Local Business Development to expand its role and become involved in providing or coordinating programs to provide the training, business development and financing support needed to place LSDBEs on an equal footing with the companies against which

they have to compete. These stakeholders seem to understand that this is a major undertaking that will require greater and better trained staff, and agree that OLBD is the logical department to lead this effort.

In its work to identify the key issues surrounding the demand for and delivery of local business and technical support, the Subgroup relied extensively on data gathered from various LSDBE program stakeholder groups. To analyze the level of technical assistance provided, the need for additional technical assistance, and to identify potential options for its provision, the Task Force reviewed findings from the Community Business Forums, the Focus Groups, individual interviews; examined the practices of other municipalities and local, regional, and national technical assistance and business development programs.

3.1 Stakeholder Perceptions of LSDBEs and the LSDBE Program

The following items compose a list of common observations provided to the Subgroup from stakeholders, including private developers, District government agency directors, District government procurement officers, LSDBEs and Local Business Opportunity Commissioners.

- ◆ Developers, agency directors and agency procurement officers understand that the program is meant to support the development of LSDBEs, but they see no formal efforts being made by OLBD to ensure the provision of training, advisory services, or financial resources to LSDBEs. As a result, they feel as though the program places a burden on developers, agency directors, and agency procurement officers to provide technical support and business services that they are not equipped to offer LSDBEs.
- ◆ Local Business Opportunity Commissioners also believe that the program has not done enough to support LSDBEs in providing technical assistance and training. They also feel that LBOC does not address the lack of financial resources, which they see as a major issue for many small and disadvantaged businesses.
- ◆ A common theme among the developers, agency directors, and agency procurement officers is that there are not enough certified LSDBEs with the capacity and capabilities to meet their procurement needs. Many of these developers and officials would like, and expect, the LSDBE database to contain some performance evaluation of the LSDBEs. Some say that the value of the database is diminished by not weeding out or indicating LSDBEs with recurring performance problems, lack of capacity, or who have capability limitations. Another concern expressed by some developers and officials is the difficulties they face when trying to remove a vendor from a contract for poor services delivery. They say that it is easier to accept the under performance than to change vendors.
- ◆ Further, these stakeholders say that, while they would like to use more LSDBEs, many of the categories from which they purchase have no certified LSDBE vendors.
- ◆ Agency directors and procurement officers say that efforts to break contracts into smaller, more LSDBE-friendly increments are time consuming and often not practical or not al-

lowed. Likewise, partnering a LSDBE with an established or larger vendor to act as a mentor is not practical and is costly to the mentoring firm. Stakeholders cite examples of how some prime contractors will partner with an LSDBE only to use them as a “pass through contract.” This practice clearly defeats the spirit of the program in attempting to develop these small businesses.

- ◆ From the LSDBE’s perspective, District agencies are not being sensitive enough to the problems they face when trying to compete for District contracts. They believe that there is a feeling among the agency directors and procurement officials that LSDBEs can only compete for smaller projects and lack the capacity and capability to handle larger contracts. As a result, they say that they are being overlooked on many projects. Overall, LSDBEs question the level of commitment the agencies have to using them and/or ensuring their use and development by prime contractors. They think that agency directors and procurement officers are not being monitored or held accountable for meeting their LSDBE goals and are not monitoring Memoranda of Understanding and other contracts with prime contractors. Private developers confirmed this by saying that they do not expect to be penalized for not meeting their LSDBE goals.
- ◆ The stakeholders who took part in the Focus Groups offered a variety of different viewpoints concerning the overall goals of the LSDBE program, including “help for businesses to get started, the provision of training to allow businesses to become self-sufficient, help for businesses to compete for government contracts, and ultimately to help return tax dollars to local businesses and the City in general.” One LSDBE stated, and others agreed, that, “This is the vehicle to use me expeditiously and use me before you use somebody else.”
- ◆ The Technical Support and Business Assistance Subgroup analyzed the key issues identified on a stakeholder-by-stakeholder basis in an effort to ensure that the issues of each of these stakeholder groups are adequately addressed. These issues follow:

Private Developers

All of the private developers expressed concern about the business capacity and capability of many of the certified LSDBEs. These business leaders noted that the lack of bonding, the lack of insurance, and the overall weak financial strength of LSDBEs present problems when projects are underway and/or when attempting to bring a LSDBE into a bid proposal. Further, they note that there are not enough LSDBEs to choose from in certain vendor categories.

Agency Directors and Procurement Officials

The general consensus among District government agency directors and procurement officials interviewed by the Task Force is that the LSDBE program is good “public policy.” However, they have experienced problems with the quality of LSDBE’s work and with the enforcement of quality and performance standards of many LSDBEs. Some procurement officials even expressed a level of comfort in only awarding “smaller contracts” to LSDBEs. Further, in con-

cert with private developers, they note that there are not enough LSDBEs to choose from in certain vendor categories.

Local Business Opportunity Commissioners

Local Business Opportunity Commissioners pointed to inefficiencies in the certification process. They also expressed concern that the program has not provided sufficient support in the area of technical assistance and training, as well as addressing the lack of financial resources available to the small business community.

LSDBEs

LSDBEs provide mixed reviews about the certification process, but consistently agree that the program does not adequately provide technical assistance and training support or referrals for such support. LSDBEs specifically stated that there is a need for more training in the certification process, ways to identify procurement opportunities within the District, the best means to market their products and services to District procurement officials; and ways to obtain bonding, insurance, financing and other business development advisory services and training.

3.2 Technical Support and Business Assistance Currently Offered by OLBD

As previously noted, OLBD is not explicitly mandated to provide technical and business assistance programs. OLBD states that it dedicates considerable staff time to outreach in the community and within the District government (agency directors and procurement officers disagreed with this). Currently, technical assistance offered through OLBD is limited to the certification, bidding, and contract award processes. OLBD offers the following forms of technical assistance to the LSDBE community:

- ◆ **Monthly LSDBE Recruitment and Orientation Seminars:** Interested businesses are introduced to the LSDBE program and its benefits, instructed on how to do business with the District government by representatives from OCP, are and provided with an information package of relevant resource materials in a brief two-hour session. These information packages include certification application materials, a reference sheet of business development resources, procurement forecasts (as available) with contracting officer contact information, upcoming technical assistance training program calendars, joint venture requirements, and a summary of the U.S. Small Business Administration's (SBA) financing program information. All materials are not discussed during these short sessions, but the information, along with relevant contacts, is provided to participants. Some businesses that are seeking certification have stated that this session is too rushed to be valuable.
- ◆ **Monthly Business Roundtables:** These sessions are designed to introduce LSDBEs to the chief contracting officers and the business opportunities available within District govern-

ment agencies. A different agency is highlighted each month, and LSDBEs have the opportunity to share issues and experiences in the procurement process. As available, agency procurement forecasts are also discussed during Monthly Business Roundtables. According to OLBD, monthly business roundtables generally attract 40 to 50 participants.

- ◆ Community Business Events: In addition, OLBD reported that during 2001, the agency participated in 125 community-business events.

3.3 Technical Support and Business Assistance Offered and Planned Through the District and Federal Governments

In conjunction with the DC Office of Banking and Financial Institutions (DBFI), the SBA and the Washington, DC Small Business Development Center Network have been working to establish One-Stop “Business Resource Centers @ Your Library” in several of the local libraries and a “One-Stop Capital Shop” at the Martin Luther King, Jr. library, in an effort to make SBA-administered technical support and business assistance services, and those offered through other federal and private sector sources more easily accessible to small and disadvantaged businesses. Funding has not yet been obtained. However, this effort remains a priority for the local and federal government agencies involved. Based on its research, the Subgroup has determined that more easily accessible and better coordinated technical support and business assistance services for LSDBEs are needed in the District.

The District’s Department of Housing and Community Development provides funding to several local Community Development Corporations (CDCs) for small business technical assistance. This effort’s funded largely through proceeds from the US Department of Housing and Urban Development. Given limited funding, these programs have not been able to offer the in-depth training and business advisory services that many local, small and/or disadvantaged businesses require. Much of the assistance provided is targeted to start-up businesses and focuses on elementary business training. There is very little assistance provided by way of procurement assistance, joint venturing, financing or business expansion assistance. Based on its own audits, the Department of Housing and Community Development has determined that the CDCs have not managed their financial resources adequately and have not provided the level of technical assistance that they proposed.

Also, OLBD plans to launch an LSDBE business resource center where businesses can receive specialized training on issues such as tax preparation, planning, and business financing. The resource center, expected to be located adjacent to OLBD’s offices, will also house four computers for LSDBEs who do not have Internet access or other computer capabilities.

In its research, the Subgroup has found that these same services are offered through the SBA’s Single-Business Resource Center located at 1110 Vermont Avenue in Northwest, through its Service Corps of Retired Executives (SCORE). These services are also offered through SBA’s

network of Small Business Development Centers (SBDCs) that are managed by Howard University. There are four such centers in the District, all managed and funded by Howard University and located at:

- ◆ Howard University School of Business
- ◆ Center for Urban Progress at 2000 14th Street, NW
- ◆ Anacostia Economic Development Corporation (AEDC) at 2021 Martin Luther King Jr. Avenue, SE
- ◆ University of the District of Columbia's David Clark School of Law at 4200 Connecticut Avenue, NW

These centers offer free or low cost training and advisory services to all small and disadvantaged businesses located in the Washington, DC Metropolitan Area. Noteworthy is the fact that Howard University has provided the funding match that the SBA requires for these Small Business Development Centers since their inception in 1977, while the District government does not allocate any funding to support these efforts. This is in stark contrast to every other State in the nation. These States contribute funding to their Small Business Development Center Networks, typically in conjunction with their university networks, local economic development agencies, and chambers of commerce.

However, the DC Chamber of Commerce's Georgia Avenue Business Resource Center does offer low cost and no cost small business training and advisory services, though largely to businesses along the upper Georgia Avenue, NW corridor. SunTrust Bank's branch at 1445 New York Avenue, NW has a business resource library that small businesses can access for conducting research, preparing marketing materials and a wide range of other business support services. Very limited advisory services are offered at no cost.

In July 2002, the District's Department of Employment Services opened its first Business Resource Center, located at 77 P Street, NE. The center provides start-up companies and small business owners business counseling services, technical assistance, on-line access to the Master Business License application process, and other types of assistance. Additionally, the Resource Center serves as an incubator for several small businesses by providing basic office services and equipment, technology support services, meeting space, and assistance in obtaining information about small business financing. Howard University's Small Business Development Center staff support the Resource Center by counseling small business owners and conducting business workshops.

The Subgroup has also found that the Office of the Deputy Mayor for Planning and Economic Development has announced a new program initiative structured to provide neighborhood business districts the technical and financial assistance needed to address a variety of revitalization opportunities and challenges. The initiative consists of four complementary components:

-
-
- ◆ The ***DC MAIN STREETS*** program is administered in conjunction with the National Trust for Historic Preservation and provides a comprehensive package of technical and financial assistance to competitively selected neighborhood business districts. The goal of this program is to establish and implement an ongoing, comprehensive revitalization program based on the National Historic Trust's Main Street approach to historic preservation and economic development along major commercial corridors. The Office of Planning is the primary supporting agency for this component of the program. The FY02 budget is \$1.1 million in private/other funds appropriated by Congress. Five neighborhood programs were designated in FY02, and five more are expected to be designated annually thereafter. Businesses along these corridors will receive assistance in developing their real estate properties.
 - ◆ The ***Commercial District Technical Assistance Program*** (CD-TAP) provides technical assistance resources for any commercial district in the District of Columbia. Business districts with specific technical assistance needs apply to CD-TAP for matching funds of \$500 to \$25,000 to procure technical assistance or advisory services related to a specific "quick-hit" revitalization activity or project(s). The FY02 budget is \$900,000 (\$400,000 in private/other funds appropriated by Congress; \$500,000 in CDBG funds appropriated to DHCD for obligation through NDAP).
 - ◆ The ***Commercial Property Acquisition and Development Program*** (CP-A&D) provides matching funding for non-profit organizations to acquire, redevelop, or build commercial properties located anywhere in the District of Columbia. These properties are targeted for a wide range of businesses, small and large, and community organizations. The FY02 budget is approximately \$5 million.
 - ◆ The District-wide ***Small Business Development Program*** is expected to initially be coordinated by the Office of Deputy Mayor for Planning and Economic Development, in close cooperation with the Department of Banking and Financial Institutions, following DBFI's proposed "Business Resource Centers @ Your Library" model. The first location is expected to be the Martin Luther King, Jr. Library. This program proposes to provide each of the District's eight wards a library-based facility that small businesses can visit to receive technical information and have access to capital. This effort is modeled after the successful Washington, DC Small Business Development Center Network and the Georgia Avenue Business Resource Center. The component is to be supported by other cluster agencies, including OLBD, Consumer and Regulatory Affairs, Housing and Community Development, and the National Capital Revitalization Corporation (NCRC). The FY02 budget is \$1 million that was obtained through an Industrial Revenue Bond (IRB) fund allocation.

In addition to the technical support and business assistance programs identified above, the February 28, 2002 Proposal for the District of Columbia's Small Business Development Program provides an inventory of other federal and private sector programs and resources that are available to small businesses. This program was commissioned by the District's Office of the Deputy Mayor for Planning and Economic Development.

3.4 Key Issues in the Provision of Technical Support and Business Assistance to Small and Disadvantaged Businesses in the District

In the above-referenced Small Business Development Program report, the author examined a number of key issues related to the small business community, including existing conditions and an assessment of the scope of existing technical assistance programs offered to small businesses in general. The Subgroup relied on this report's examination of several of the Federal Government's "protected class" business programs to gauge the extent of technical assistance offered to protected class businesses. The report also looked at what, if any, government entities have the statutory authority to deliver business and technical support to their protected class business populations.

Consistent with the Subgroup's findings, the report concluded that "most technical assistance is provided by community-based organizations, a handful of which are partially funded by the U.S. Department of Housing. The DC Department of Housing and Community Development is also a funding source through its neighborhood development assistance program grants. The U.S. Small Business Administration and its Small Business Development Centers also provide funds. Other business and technical assistance programs are funded by District agencies, non-profit foundations, universities, and corporate sponsors." In total, the report identified 15 District government agencies that operate "direct assistance programs," broadly described as programs that small businesses would want to access. Another eight entities serve small businesses through some type of public-private partnership and regional organization, and 12 community-based organizations offer direct assistance to small businesses. As confirmed through the Subgroup's research, the report provides, amongst other things, the following findings and conclusions related specifically to small business technical assistance in the District of Columbia:

Lots of Help, but There Are No Existing "One-Stop Shop" or Comprehensive Coordination Strategy

- ◆ There is an abundance of useful programs, services, and information for the benefit of District businesses, though none specifically targeting LSDBEs.
- ◆ No single entity is responsible for ensuring that small and disadvantaged businesses know how or where to obtain all of the assistance they need.
- ◆ Local, small and disadvantaged business owners and those who assist them do not believe that a comprehensive business strategy is focused on their unique needs.
- ◆ The proliferation of new direct assistance starting points for small business – in addition to existing ones – needs to reflect methodical centralized planning, development of measurable objectives, and elimination of redundancy to ensure the efficient use of resources and effective service delivery.

There Is No Existing Program Inventory, nor an Assessment of the Quality of These Programs

- ◆ Even with recent enhancements, comprehensive information specific to small businesses is not easy to locate on the www.dc.gov web-site and are not available through OLBD's web-site or through the Office of Consumer and Regulatory Affairs.
- ◆ Local government agencies, community organizations and local businesses do not have adequate awareness of the existing and planned technical assistance programs.
- ◆ Inventories of direct assistance include the "usual suspects" of major programs, while neglecting to mention the smaller programs that can also deliver significant benefits to small businesses.
- ◆ Informative printed brochures, applications, and information about direct assistance is most easily accessible only at agency locations in or near downtown, which are difficult for small and disadvantaged businesses to actively access.

There is no available assessment of the quality of these programs.

Communications Not Oriented to the Small Business Owner

- ◆ Outreach events and promotional activities are frequently focused on one agency or program, rather than the portfolio of direct assistance.
- ◆ Schedules for small business-oriented events are typically published by individual agencies or promoted on individual agency web-sites. This information is typically not widely distributed, and events are often not scheduled when small business owners can take time away from their businesses, i.e. evenings, weekends and before 9:00 a.m.

Disconnect Between Small Business Owners and Their Ability to Access Digital Resources

- ◆ In many cases, agencies are depending on the Internet to distribute information and perform service delivery, while many small businesses lack Internet access or computer literacy.
- ◆ Business owners complain that they have very limited time and resources to continuously check the Internet for information. They need information that is targeted to their needs to be delivered directly and most efficiently through email or fax.

Agencies Are Vertically-Oriented and Small Businesses Need Horizontal Integration

- ◆ Without a guide to understand what is generally available, small businesses need to know in advance what kind of specific assistance is available and what assistance they need.
- ◆ Some agency officials have unrealistic expectations regarding the time, energy, expertise, and patience that a small business should need to expend in order to access assistance.

3.5 Best Practices: State and Federal Government Programs

In researching best practices, the Subgroup examined, amongst other programs, the City of Baltimore's Minority/Women's Business Enterprise Program, the City of Philadelphia's Minority Business Enterprise Council, and the State of Florida's Office of Supplier Diversity. These cities and State have been identified as those that have some of the best coordinated business assistance programs. The Subgroup found that none of the administering agencies directly offer technical assistance or training to its protected class businesses. Nationally, offices/agencies that are similar to those in Baltimore, Philadelphia and Florida focus strictly on certification and the bid process and have no mandate to deliver business assistance directly. However, technical assistance program offerings in these cities and State are well coordinated between their SBA-certified Small Business Development Centers, college and university networks, their local economic development agencies, and their Chambers of Commerce. For example, in Baltimore, the City and the State have offered a broad range of City/State funded debt and equity financing and loan guaranty programs and an extensive SBA-licensed Small Business Development Center Network. The latter has been managed by the University of Maryland, for many years. Although the State of Florida has essentially eliminated minority set-asides and bid preferences, the State's recently created Office of Diversity has committed to the enhancement of financial and technical assistance programs that target minority businesses. These programs include the Bond Guarantee Program at Florida A&M University and the minority franchising program of the Black Business Investment Board.

Examples of training and counseling initiatives that are coordinated between a number of local and federal government agencies and the private sector are the One-Stop Capital Shops (OSCS) in Boston, Massachusetts, Atlanta, Georgia, and Chicago, Illinois. All three entities are organized as 501(c) 3 corporations. They provide a comprehensive program of business management and planning, legal support, and financial planning for the business community. These services are provided through a network of on-site professional advisers from the U.S. SBA's (SCORE), its Small Business Development Centers (SBDCs), local banks, representatives from the SBA, local government Loan Guarantee and Business Investment Programs, local universities, and the Department of Commerce's International Trade Assistant Programs.

The One-Stop Capital Shop located in Atlanta's City Hall provides information on training programs offered throughout the City, coordinates mentoring programs, and provides business planning assistance, and training. Boston's OSCS is located in its Empowerment Zone and is designed to assist local small businesses in establishing and developing viable businesses in that zone, using the same resources as those offered in Atlanta.

3.6 The Certification Process

The scope of work included in the Office of Local Business Development's program is primarily focused on certification, monitoring, and reporting on the LSDBE's utilization by District

government agencies. The office has made significant strides towards streamlining the certification process, by reducing the number of pages in its certification application from 17 to 8 during FY2000. However, prospective LSDBEs complain that the same extensive detail is required, largely as attachments now, and that required information is similar to that required by lenders and/or investors.

During the two-year period 2000, 2001, the agency issued, on average, 253 new and renewal certifications to LSDBEs. Thus far during 2002 (October – June), OLBD has issued 217 new or renewal LSDBE certifications. All total, approximately 600 companies are certified as LSDBEs in the District of Columbia. To put these data into context, the SBA's *2001 Small Business Profile* of the District of Columbia shows that there were 26,157 businesses in the District in 2000, and 24,482 of those were classified as small businesses (i.e. those with 500 or fewer employees). The latest data available (2002), show that there were 15,200 minority-owned businesses in the District, representing 33.6% of all businesses.

Based on the total population of small and/or potentially “disadvantaged” businesses in the District of Columbia, according to SBA data, the District's LSDBE program is not finding widespread appeal among the overwhelming majority of potentially qualified businesses. Considering that the small business size-standard for SBA certified small businesses is comparable to the District's small business size-standard, the above data suggests that thousands more small businesses could potentially become certified under the LSDBE program. This was especially troubling to the Subgroup, as a common theme among the developers, agency directors, and agency procurement officers interviewed is that there are too few certified LSDBEs to meet their procurement needs. These stakeholders say that, while they would like to use more LSDBEs, with the exception of a few selected industries, many of the categories they purchase from have no certified LSDBE vendors.

Overall, the LSDBE certification and re-certification processes received mixed reviews from the stakeholders that were interviewed. Several of the developers and agency representatives have the impression that the certification/re-certification process is difficult and discourages applicants, while some LSDBEs found the certification and re-certification processes to work smoothly and commented that OLBD staff was very helpful. However, other LSDBEs encountered problems and delays when they went through the process.

Perceptions of the Certification and Re-Certification Process

Participants in the Task Force's Focus Groups stated that:

- ◆ “They (OLBD) believe that, once you are the client, then they give you service. But, until you become a client, it's like, ‘We want you to be certified,’ until you get this particular certification. That has not sunk in that those who are uncertified are still their constituents.”
- ◆ “The certification process is pretty good.”

-
-
- ◆ “I didn’t even have to call in; they called me for re-certification. This was just last week.”
 - ◆ “It was horrible. It took three months. And with the exact same paperwork that I submitted in December, they said I had something missing, as though I left something out, and it took them three months. I had to continually call them and fax them the same information over and over and over to the point where I had to call my Councilmember and complain. And, it wasn’t until their office got involved that I actually got a tip letter. I was waiting on that certification to do work, and it took me three months.”

One issue the Local Business Opportunity Commissioners have with OLBD relates to the preparation of the LSDBE applications. Commissioners find that often information is missing or incomplete, delaying their ability to grant certification in a timely manner. One Commissioner stated, “Our suggestions have been to improve the quality time that the staff spends on these applications, because my experience is the same mistakes month after month after month. And if they really made an all-out effort to minimize commissioner’s questions, then they wouldn’t be answering to us all the time about whether this person really runs the business out of ‘x’ place or why this individual didn’t submit last year’s tax returns. It’s all there. We require the previous two years; the previous two years is not 1999, it’s 2001.”

Perceptions of the LSDBE Program and Why So Few LSDBE Certified Businesses Feel That They Have Truly Benefited From the LSDBE Program

With regard to experiences with the LSDBE program and why so few certified businesses feel that they have benefited from the program, the Task Force received the following feedback from Focus Group participants. This feedback was consistent with data collected during the Community Business Forums:

- ◆ Many LSDBEs find that trying to work with the District’s agencies is a significant barrier for them when competing for District government business. One interviewee states, “We have to jump through so many hoops to get this thing, for a small business, you just give up. I still apply for things but, I do most of my business with the Federal Government and it’s just a much easier dance than the hoops of the District. Each agency has its own practices, everybody wants a different thing and when you’re truly a small business you can’t go through all of that.”
- ◆ Many LSDBEs find that District agencies tend to have the viewpoint that LSDBEs are generally not capable of handling large projects. As a result, they are either overlooked or told that they need to partner with a prime contractor because they are too small to bid on projects alone. These small businesses view this as insensitivity on the part of the agencies and that LSDBEs are not being given an opportunity to demonstrate their capabilities. One respondent stated that: “It’s the minority firm that’s always the sub these days because somehow the perception is the minority firm cannot do the job.”

-
-
- ◆ A Local Business Opportunity Commissioner stated, “As you look at the categories of certification, the local, disadvantaged and the small businesses, the major share of the dollars go to the local.”

Why Are So Few Potentially Eligible Small and or Disadvantaged Businesses Certified in the District’s LSDBE Program In Relationship to the Number of Potentially Eligible Businesses?

Participants in the Task Force’s Community Business Forums and Focus Groups believe that the overall business community trends to have negative impressions of the LSDBE program. Several groups commented that the lack of participation by much of the District’s small business community is the result of LSDBEs not believing that the program can directly benefit, or be of value to their firms.

- ◆ Among the procurement officers interviewed there was the general feeling that the LSDBE program is not performing as well as it should. Several of them were able to point to LSDBEs that have succeeded as a result of their participation in the program. The Sub-group learned that these LSDBEs tend to be in non-capital intensive areas, such as the information technology (IT) field or other service-oriented fields. One procurement officer stated that, “I think that’s probably because there are some pockets of success. I was at the LSDBE Marketplace . . . there were so many IT firms that came up to the exhibit booth, and they wanted to know if we could do business with them . . . so I know there’s a lot of supply there and there’s a lot of demand on our side. Now, you get to other areas that are more capital intensive, like road construction work, you get a slightly different story. We make the decision to set aside, we’ve done that in the past but it’s getting increasingly difficult to do because of the limitations posed by the availability.”
- ◆ Agency directors are also of the opinion that the LSDBE program, as implemented, has experienced only limited success. While they believe that there are LSDBE success stories, for the most part they believe that the program is not impacting the small business community in any meaningful way. Participants indicate that while some LSDBEs are benefiting from the LSDBE program, there tends to be only a small number of businesses that actually bid on a large number of contracts. Directors say that they are not seeing an influx of new LSDBEs enter into the process, but rather the program tends to be populated by a core group of LSDBEs. One agency director provided the following insight: “There always seem to be, from my observation, a number of the same individuals and/or firms that are always sort of ‘there’ but you always sort of see some of the same mix. In other words, you would expect the pool to change as the requirements and everything changes. And there are a few firms that step-up and say, ‘Well, I can do “A” but oh yeah, if you need me to do “B” I can do B.’ And, then if “C” comes along, ‘I do “C,” too!’ So, the pool isn’t changing as much as it should be; there’s not an interchange of a variety of companies.” Another procurement officer stated that: “The IT LSDBE firms. Of the 78 firms that I have on my list of LSDBEs, I’ve only contracted with 28 of those, and of those 28, the top ten have

done more than 50 percent of the work. So, when you say ‘who’s benefiting,’ there is a small group of LSDBEs that are benefiting. Of course there are LSDBEs doing a good job, so it’s deserved. But, that is an issue for those that are not getting the work.”

- ◆ Private developers have the perception that the certification process is difficult for a small and/or disadvantaged contractor to complete. One private developer stated that, “It seems like the program, in terms of getting people qualified, must be very cumbersome because there always seems to be, from what I’ve seen, a hindrance of some sort. I can’t put my finger on it.” Another stated, “I’ve heard that as well from a number of people. When they have been urged to become involved, to become certified, meet the qualifications, they have all expressed disdain for the process, how long it takes, how expensive it is and how intrusive it is in their business practices. So I think there would be a lot more participation if the process were somehow streamlined.”

3.7 The Negative Impact LSDBEs Shortages Have on Procurement Officers, Agency Directors and Private Developers

A common theme among the agency procurement officers, agency directors, and private sector developers is that there are not enough certified LSDBEs in specific categories to meet their procurement needs. These stakeholders say that while they would like to use more LSDBEs, with the exception of a few selected industries, many of the categories they purchase from have no certified LSDBE vendors to provide those goods and services.

This shortage of certified LSDBEs in specified categories, in turn, leads to other problems. For example, the cost of using an LSDBE for a project is not cost-inefficient because there are so few from which to select. This narrows the number of LSDBEs who provide quality services. Several interviewees said that using an LSDBE adds approximately 10% to the project’s cost. For example, developers say that they incur administrative costs when they try to involve LSDBEs in a project, including costs related to locating a quality LSDBE, checking their qualifications and capabilities, arranging bonding or insurance, etc. This has the unfortunate result of introducing a trade-off decision with respect to paying the extra cost to use an LSDBE or simply incurring a 5% penalty for not doing so. In addition, because there are a limited number of LSDBEs from which to select, agencies find that to meet their program goals, they contract with LSDBEs whose performance falls below what would normally be acceptable.

While some of the developers say that they have successfully used LSDBEs on major projects, overall, there is the feeling that, at the present time there are not enough qualified LSDBE contractors to meet their needs. Developers also say that, not only is the pool of LSDBEs too small, but there are not enough LSDBEs in certain construction trades (drywall, plumbing, etc.) to meet their needs and to allow them to meet their program goals. The lack of LSDBEs in the construction trades has had a negative impact on developers trying to meet their program goals.

What Actions Should OLBD Take to Certify More Businesses, Including Those in Vendor Categories that Have Been Identified as Most Needed by Procurement Officers, Agency Directors and Private Developers?

The Subgroup reviewed the business certification process of the U.S. Small Business Administration, U.S. Department of Transportation, the cities of Philadelphia, Pennsylvania and Atlanta, Georgia and the Washington Area Regional Committee on Minority Business Enterprise Certification. We found that the certification applications used by these organizations were similar to OLBD's certification application with regard to the type and volume of information requested. Many of the actual applications appeared to be modeled after the SBA 8 (a) certification program. Careful review of both OLBD's and SBA's certification applications support the idea that a unified certification program is feasible. Based on discussions with the SBA's District office, the agency is extremely interested in establishing a mutual agreement/Memorandum of Understanding through which the SBA and the District would reciprocally accept each other's certified small businesses.

Further, the Washington Area Regional Committee on Minority Business Enterprise Certification is a consortium of nine local and regional governments and organizations, created in the early 1990s to provide for universal certification amongst its members. The representative jurisdictions, which include the District of Columbia, developed a universal certification program that allowed program applicants to use certifications from participating members to waive certain application filing requirements.

This Subgroup was told that the development of the certification agreement between organizations resulted in an exponential increase in business opportunities for companies, and the concept of certification streamlining has been adopted by both SBA and the Department of Transportation through the establishment of a Memorandum of Agreement to accept each other's certifications.

While the SBA certifies businesses as "small" under the 8(a) program, other certification programs certify businesses in other categories. The National Minority Supplier Development Council (NMSDC) certifies business through its regional affiliates as "minority-owned." Although the District's LSDBE program definition of "disadvantaged" should not be construed to mean minority or race-based, the Subgroup believes that a "minority-owned" certification could be used to support a business' application for certification as a disadvantaged business under the District's LSDBE program.

What Actions Should OLBD Take to Ensure That Greater Numbers of LSDBES See Value in the Program?

The Subgroup believes that the majority of LSDBE certified businesses do not realize the potential business opportunities available through the District's LSDBE program, opportunities that could aid in expanding their business capacity and capabilities. Some of the key reasons why this capacity and capability building is required:

-
-
- ◆ Many LSDBEs have limited capacity, including no access to capital funding, very little credit capacity, limited capacity to further develop their businesses, and a lack of “savvy” in addressing financing, bonding, and insurance issues. Participation in the LSDBE program provides opportunities to overcome these deficits.
 - ◆ Some prime contractors and District government officials have perceptions that LSDBEs are not qualified for certain contracting opportunities. In some instances, LSDBE participation could disprove this perception.
 - ◆ Information about procurement opportunities is not viewed as easily accessible and readily available to them. Program participation may prove that such information is readily available.
 - ◆ Procurement opportunities are often outside of the scope and capacity of LSDBEs. Increased participation could provide LSDBEs with the necessary scope and capacities.
 - ◆ In the solicitations posted, they see no business development opportunities available to them. This view may not be true, and program participation and technical assistance may allow participants to see business opportunities.

Based on its research, the Technical Support and Business Assistance Subgroup believes that OLBD could offer, and do a better job of recommending, technical assistance programs during the certification process and through the LSDBE growth cycle, especially programs that can assist LSDBEs in responding to RFPs, expanding their business capacity, and enhancing their capabilities. These actions would enhance LSDBE success in the program.

The Subgroup conducted research that addressed the needs of certain minority and immigrant LSDBEs and prospective LSDBEs. For example, according to the SBA, there were 2,200 Latino-owned firms in the District of Columbia in the year 2000. Many of these firms are small “mom and pop,” or micro businesses, with owners who are Latino and have left their countries of origin and come to the U.S. seeking freedom and the American dream. Many Latino business-owners from this population come from countries where political unrest, civil war, and general distrust of the government are a way of life. In addition, many of them are not fluent in English and, thus, find it difficult or extremely intimidating to communicate with government agencies. In response to these special needs, OLBD should provide outreach and recommend technical support and business assistance at the grassroots level. According to Janet Farrell, President of the DC-based Latino Economic Development Corporation, “Latino and other micro businesses do want to pursue contracting and subcontracting opportunities with the District government, but are unsure of the processes, how to get information, and what the various rules and regulations are. There is a perception that this process is so tedious, confusing, and time-consuming that it’s not worth the effort. Also, Latino and immigrant business-owners may have special language needs that make the process even more daunting.”

To alleviate these barriers, the District should use established business and community groups, like the Latino Economic Development Corporation, to provide this type of support and assis-

tance at the grassroots level in the communities where these business-owners live and work. Because the local government is not legally mandated to provide technical support and business assistance, this population of business-owners is left to rely on other sources to supply technical support and business assistance services.

3.8 LSDBE Business Capacity, Capabilities and Performance Quality

The Technical Support and Business Assistance Subgroup focused its attention on examining ways to enhance small business capacity and, thereby, create a more capable, marketable and robust pool of businesses ready to compete for government and private sector business opportunities. Based on all of its research, the Subgroup has determined that the District must do a better job of providing its local, small and/or disadvantaged community the resources that will allow them to take better advantage of the LSDBE program. This improved service must be offered either directly or through other public and private sources

The Subgroup believes that many more businesses could be certified as LSDBEs and many of those that are certified would reap the benefits of expanded contract opportunities, if training and technical assistance that specifically address their needs are made available to them. To date, all stakeholder groups have said that they believe that the program has not done enough to support LSDBEs through the provision of technical assistance and training or in addressing the lack of access to and knowledge of available financial resources. The latter is a major issue for many small and disadvantaged businesses. Many of the stakeholders interviewed said that they would like the LSDBE program to include a training and business assistance component, whether offered through OLBD staff or through existing programs. This component would assist in capacity building, expanding capabilities, identifying sources of bonding and insurance, raising debt and equity capital, and aid them in remaining viable. These stakeholders think that OLBD is understaffed, especially in comparison to previous years. Consequently, the program is less successful.

Until the District makes significant improvements in assisting businesses in building capacity to compete, many LSDBEs will continue to complain that the program does not work for them and that the District does not appear committed to the program. Building capacity entails, amongst other things, helping to ensure that essential business infrastructure, systems, and processes are in place, that adequate financing is available. It also entails facilitating LSDBEs in becoming seasoned marketers of their goods and services. LSDBEs interviewees expressed an interest in OLBD offering assistance in the areas of financial functions, e.g., financing, bonding, and insurance. They also want assistance in business development skills, e.g., marketing, public relations, business expansion and growth, and the fundamentals of submitting RFPs, including bidding and estimating. Further, assistance in computer skills and training is also desired.

The Subgroup believes that the LSDBE certification process provides an excellent opportunity for OLBD to assess the technical and business assistance needs of LSDBE certification appli-

cants, and to systematically refer them to business and technical assistance service providers capable of meeting their needs. The LSDBE certification process could be the first step in building small businesses' capacity by getting applicants into a "pipeline" of capacity building training and advisory services.

Specifically, training and other business support assistance should be designed as opportunities for LSDBEs to develop their business acumen. Many businesses need to be actively "nursed along" to realize success. Currently, OLBD did not have adequate staffing to directly provide technical assistance; however, as mentioned earlier in this Report, the Subgroup has determined that there are numerous technical assistance programs available in the District. The next critical step is for the District government to coordinate these vast resources and to offer ways to enhance these programs to meet the specific needs of LSDBEs and businesses seeking certification. This may include providing some additional funding to existing programs.

While the lack of qualified LSDBEs is a major concern amongst procurement officers, agency directors and developers, they have encountered other critical issues when working with LSDBEs. For example, several developers said that when they work with an LSDBE they often have to train that LSDBE. This creates a certain amount of frustration on their part and adds to their cost of doing business. As previously stated, several interviewees calculated that using LSDBEs for government financed projects, adds about 10% to their project cost. In addition, developers said that there are also administrative costs to consider when trying to involve LSDBEs in a project. These costs are related to locating an LSDBE, checking its qualifications and capabilities, arranging for bonding or insurance, etc. Developers feel that LSDBEs need assistance in "getting up-to-speed financially, how to bid the job, and how to estimate it." Also, bonding, insurance, and the overall financial strength of LSDBEs create problems either during project operation or at the bidding point. Agency directors and procurement officers express frustration in learning that after contract award, a LSDBE cannot obtain bonding or insurance. Likewise, obtaining adequate funding is a major barrier faced by many LSDBEs. These interviewees feel strongly that the local, small and disadvantaged business people have special financial, bonding and insurance needs that are not being addressed.

Quality, capacity, and capabilities were three common areas where procurement officers, agency directors, and private developers had issue with LSDBEs. The commonly held viewpoint is that OLBD needs to provide an updated listing of LSDBEs and provide additional information about each LSDBE's skills, financial health, bonding capacity, and prior performance. One developer said, "If we agree to reach a certain goal, where all we had to do was call a certain entity in the District and say, "Okay, we're going to be subject to this requirement, tell us which six drywall, which six painting, which six mechanical, which six architects, we should talk to about doing business with," and with the comfort of knowing that they're qualified, they have the expertise, they have the financial stability and we're not paying a huge premium. That would be great! That would be fantastic! But that doesn't exist today." There are examples of databases being used to track the performance of contractors in the marketplace. The National Institutes of Health (NIH) has a program to monitor past per-

formance of contractors that other federal agencies have adopted. The Subgroup suggests that the OLBD and OCP perform due diligence on such databases, for potential use.

Agency directors are also critical concerning the lack of follow-up and evaluation of LSDBE program participants' work. As a result, the poor quality of the work performed by some LSDBEs has become a major issue for agencies. These agency directors understand that part of the goal of the LSDBE program is to help the disadvantaged businesses to grow and enter the mainstream marketplace. But, because many of these businesses lack the resources, expertise, and experience of more established firms, quality problems occur in their performance, their work falls below contract requirements. One agency director made the following statement: "I've always felt it lacked – whether it's for want of resources or whatever, a true advocacy function as well as an evaluation function at the end. Because there is no credibility with the program, even if you are using local, small, disadvantaged if those people don't perform and don't produce. Tax payers' dollars should be going to local – and should be nurturing and growing and developing small businesses here in the District of Columbia. But the balance of that also is to somehow assure through monitoring, evaluation and whatever, that you are developing and encouraging and financing performers."

The issue of quality is very frustrating to the directors on a number of levels. On one hand, they feel that the procurement system allows businesses to compete or obtain contracts in areas where they have no expertise. Agency directors have experienced situations where an LSDBE has stated that it had certain skill sets, only to learn later that the LSDBE does not have the capabilities or technical know-how needed to successfully execute the project. This has led some people to raise the question of whether or not the right companies are being certified for the program. But, more importantly, they feel that someone needs to step in and assist LSDBEs in developing the skills needed to compete. On the other hand, they find that to remove an LSDBE from a contract for non-performance has become so politically and legally difficult that it is often just easier to accept the poor service. Notably, because of the pressure to meet the agency's LSDBE program goals, there is a reluctance to replace an LSDBE for poor performance, because it could negatively impact the director's own compensation.

Furthermore, procurement officials say that there is a perception among some persons that LSDBEs can only handle smaller jobs, making it difficult to bring LSDBEs into certain projects. Interestingly, the question of LSDBEs' capabilities extends beyond their skill set or expertise to do a job to their internal administrative capability. Procurement officers say that many LSDBEs lack the administrative capacity to respond to their requests to, "turn documents around timely." The Subgroup has considered that LSDBEs lack of capabilities and expertise may only be an incorrect perception held by local government officials. If this is true, the problem can be addressed through appropriate training of agency directors and procurement officers and more effective advocacy on the part of OLBD and the Mayor.

Based on the above-referenced data, and the obvious need for a wide range of technical support and business assistance training and advisory services, the Subgroup believes that the District

should identify programs or incentives for large companies to partner with and mentor LSDBEs. One focus group participant stated the following view, which was shared by all stakeholders: “. . . big business . . . I think you need to do more in the way of enforcement, making them better incubators, better partners, to have some real commitments, some real obligations to teaching new businesses how to fish and not just how to eat . . . it seems to me that a little bit more could be negotiated . . . so that if the middle-sized businesses or the large-sized businesses are serious about playing and they do want to take advantage of some of the preferences that are afforded by having the designation, then they need to play a big brother or a big sister in the real world.”

Also, additional effort should be made to follow-up with businesses that are certified to ensure that they become viable contributors to their community’s and to the City’s economic sustainability. Many interviewees said that they would like to see an effort made to follow-up with LSDBEs after projects are completed to determine how they performed, to help correct deficiencies, to focus on how businesses can improve their performance and obtain the next contract, compete more effectively and grow. The consensus is that help should be in the areas of developing skills, as well as in how to successfully operate a business.

Bonding and Insurance

In addition to training and business advisory services, interviewees stated that they would like to see greater support of LSDBEs by assisting them in obtaining bonding and insurance. This was viewed as a critical component of developing LSDBEs.

The SBA offers a Small Contractor’s Bond Guarantee program. The Subgroup has determined that there is a need to provide this information to all LSDBEs. Depending on the flexibility of the SBA’s program, there may also be a need to create a vehicle to provide bonding assistance and bond guarantees. The Subgroup recommends that the District analyze the bond guarantee programs that are offered through the States of Maryland and Florida.

Business Incubation

Other means through which the District government can offer technical support and business assistance to perspective, start-up, and growing LSDBEs is through business incubation. Business incubation catalyzes the process of starting and growing companies. A business incubator is an economic development tool designed to accelerate the growth and success of entrepreneurial companies through an array of business support resources and services. Two principles characterize effective business incubation:

- ◆ The incubator aspires to have a positive impact on its community’s economic health by maximizing the success of emerging companies.
- ◆ The incubator itself is a dynamic model of a sustainable, efficient business operation.

An incubator program's main goal is to produce successful graduates, i.e. businesses that are technically, managerially, and financially viable and freestanding when they leave the incubator, usually in two to three years. Thirty percent of incubator clients typically graduate each year. According to the *Impact of Incubator Investments Study*, 1997, eighty-seven percent of incubator graduates remain in business. A proven model, it provides entrepreneurs with the expertise, networks and tools they need to ensure their success, including low-cost rental space (with rents usually based on projected cash-flow and graduating payments), business plan development, strategic planning, commercializing new technologies, marketing, day-to-day administration, and the raising of capital. Incubator "graduates" create jobs, revitalize neighborhoods, commercialize critical new technologies, strengthen and diversify local and national economies and build wealth. Today, there are more than 900 of these programs in the United States.

Though there are many incubation programs that could have been examined, the Subgroup has selected two successful, nationally recognized, local programs as examples: Maryland has one of the most well known programs in the nation, and has established one for high technology companies, especially in the area of biotechnology. The Maryland incubator program is called the Maryland Technology Development Center (MTDC). Additional information can be found at their web-site, <http://mdhitech.org/Entrepreneur/>. MTDC has a recently constructed facility and offers low-cost rental space and a network of technical and business support services to help local and new businesses succeed. The objective of the MTDC is to help young enterprises grow over the critical period of "incubation." Once the business has achieved momentum on its own and has the ability to survive outside of the incubator, it graduates into regular commercial and industrial space. There is also a well-known incubator in Fairfax County, VA called the Morino Institute. It operates using a strategy similar to MTDC's.

The Subgroup has learned that there are also plans to develop business incubators in Silver Spring, MD and in Arlington, VA to foster micro-businesses and economic growth.

3.9 Small Business Lending and Investing

In addition to training and business advisory services, interviewees consistently stated that they would like to see a greater support of LSDBEs in the preparation of raising debt and equity financing and working capital (e.g. contract receivables) and equipment. The Subgroup believes that this assistance is essential to the long-term sustainability of LSDBEs in business as successful contractors in the District.

Many lenders and investors perceive that there are greater risks and greater costs involved in underwriting loans of small and disadvantaged businesses. As such, it is very difficult for these businesses to obtain appropriate financing to meet their needs. Further, many small and disadvantaged business owners lack the know-how and financial expertise to prepare the required financial forms to obtain financing.

The government of the District of Columbia looks to private lenders and investors as an important resource for urban revitalization. In its Strategic Economic Development Plan for the 21st Century, the DC government emphasizes the importance of private lenders and investors in facilitating its plans for small business, real estate development, and social service growth. The DC government recognizes that growth in the City must include plans to assist small businesses in their start-up and expansion phases, and to assist community organizations through the provision of a number of services and job-training facilities. Entities involved in small real estate development projects also require such assistance. Thus, the District government outlined seven key actions designed to “forward the City’s strategy for growing the private sector” and identified the important role of capital in this effort and the need for a “concerted effort to mobilize capital resources and to coordinate them more effectively.”

Lending

The SBA’s Office of Advocacy reports in its 2001 Small Business Profile that small businesses often rely on local bank services. Unfortunately, the number of banks within the District has decreased over the past five years. Based on information collected by the Federal Reserve Board, there are very few banks that can boast of strong lending results in the District’s small business community, and even fewer that can boast of strong Community Reinvestment Act (“CRA”) ratings from bank regulators. The SBA’s Office of Advocacy offers a complete list of those banks that it considers as “small-business-friendly” on its web-site at www.sba.gov/advo/lending.

While the Subgroup believes that lending products targeted for small businesses are available in the Washington, DC market, recent bank consolidations and mergers are also likely to have a negative impact on small business lending. According to a report written for the Federal Reserve System’s Board of Governors, there is evidence of lower, small business loan growth in urban markets where market merger activity has occurred. The report goes on to note that small business lending relies heavily on “local expertise” for underwriting and monitoring borrower-specific risks. As such, lenders who lack a truly local presence make it difficult for small businesses to obtain credit. Although the types of loan products, like mortgages and large commercial loans, focused on by larger commercial banks do require product expertise, these products do not require the same level of local presence that small business loans do.

In addition to traditional loans, banks also provide loans to small businesses that are guaranteed by the SBA. There are several such programs offered through the SBA. Refer to the SBA’s web-site at www.sba.gov/financing for a detailed breakdown of its various financing programs, which include micro-loans, real estate loans, equipment loans, working capital financing, seasonal lines of credit, small contractor financing, and international trade financing. The SBA provides a wide range of guarantees to participating lending institutions, depending upon the financing program used. This type of information is provided to LSDBEs during their Orientation Seminars, but is not discussed in detail. Further, OLBD does not assess the financing needs of LSDBEs and, thus, does not refer them to lenders for specific programs.

The Washington Business Journal 2002 Book of Lists identified four banks with operations in the District as being among the top 25 small business lenders in the region. Combined, these four banks approved 38 SBA Guaranteed loans, for a total amount of \$8.7 million in 2000. In comparison, eight Virginia-based banks were responsible for approving a total of 122 SBA loans, totaling over \$48 million in 2000.

Further, non-bank lenders have been undergoing industry consolidation, leaving fewer non-bank lending sources for the District's small businesses, and the SBA-certified micro-lenders (providing financing in increments of less than \$50,000) have not been successful in reaching a significant portion of the DC small business market, have not generated profitability to expand their operations, and have not encouraged micro-level activities from an industry-wide perspective.

In addition to facing limited sources of traditional bank financing, non-bank financing and micro-loan financing in the District, many small businesses continue to face a shortage of available contract or asset-based receivables financing to support their business' growth.

The New Markets Tax Credit program (NMTC program) is a national economic development program that is administered by the U.S. Department of Treasury's Community Development Financial Institutions Fund (CDFI Fund). It was enacted into law as a component of the Community Renewal Tax Relief Act of 2000. NMTCs offer a partial tax subsidy to increase private capital available for loans and investments in commercial real estate and businesses located in low to moderate-income census tracts. Businesses and commercial real estate projects are eligible if located in census tracts with poverty rates of 20% or more, or a median income that is equal to or less than 80% of the median income for the Metropolitan Statistical Area (MSA). The credit enhances return to private investors over the seven-year holding period. In effect, investors earn an additional 5% to 6% per year, above the amount that the underlying investment earns. This shallow subsidy offsets the higher costs of finding, assembling, and evaluating deals in low-income communities, and the lower returns that such investments may pay. In total, the credit will spur the investment of \$15 billion on a national basis in new private equity capital into privately-managed investment entities, called "Community Development Entities" or CDEs, that will make loans to and equity investments in businesses and real estate projects located in eligible census tracts. The NMTC program can be the catalyst for financing the following type businesses and economic development projects:

- ◆ Commercial real estate developments within eligible low-income communities, including private, public and public/private partnerships.
- ◆ Businesses, whether small, large, new or existing, supporting eligible economic revitalization projects.
- ◆ Businesses, whether small, large, new or existing, generating income from and employing workers in eligible communities.

The US Department of Treasury's CDFI Fund will competitively award allocations of New Markets Tax Credit throughout the nation. The CDFI Fund plans to allocate NMTCs totaling \$2.5 billion in 2002 and 2003, \$2.0 billion in 2004 and 2005, and \$3.5 billion in 2006 and 2007. There are no geographic standards; thus, the Washington, DC area is not guaranteed an allocation. However, as mentioned earlier, with the financial support of the District's Office of Planning and Economic Development, the support of the Mayor, the National Capital Revitalization Corporation (NCRC), and City First Bank of DC, in partnership with The Bernstein Companies, has submitted an application seeking \$107.5 million in NMTCs to offer to private investors. As the only CDFI Fund-certified community development bank in the District, City First Bank of DC will continue to make flexible senior bank loans to small and disadvantaged businesses, including loans to small real estate contractors, and businesses dependent upon local and federal government contracts. City First Capital will make senior debt and mezzanine investments in commercial, retail, mixed-use, industrial and community facilities, in NMTC-eligible census tracts in Washington, DC, on flexible terms.

Equity Investing

There is very limited publicly available data that provides insight into the amount of equity capital that has actually been invested in local, small and disadvantaged businesses in the District. However, based on years of research by the U.S. SBA, Ernst & Young LLP, Price Waterhouse Coopers, Venture Economics (a national venture capital research firm), and the National Association of Small Business Investment Companies (NASBIC), small and disadvantaged businesses (those with fewer than 500 employees), those that are minority-owned, and/or those that are located in or are locating in low to moderate income communities throughout the nation, report a scarcity of equity capital available to meet their needs. Lenders support this research, as many deals cannot be completed due to a lack of appropriate levels of equity capital to offset their risks and to provide the means for these small and disadvantaged businesses to grow and survive.

Equity capital is available through U.S. SBA-licensed Small Business Investment Companies (SBICs), Specialized Small Business Companies (SSBICs), New Markets Venture Capital Companies (NMVCCs), traditional private equity firms, and angel investors. Further, and as mentioned earlier, through its new, nationally-focused New Markets Tax Credit Program, the U.S. Department of Treasury's CDFI Fund expects to certify CDEs throughout the nation to provide debt and equity capital to businesses and to real estate development projects in census tracts characterized with 20% or greater poverty levels or median incomes less than 80% of the median income through the related Metropolitan Statistical Area (MSA).

SBICs and SSBICs were created to fill the gap in equity financing being provided to small companies. SSBICs were formed to target the equity financing needs of minority-owned firms, including those owned by African-Americans, Hispanic-Americans, Asian-Americans and Native-Americans. These equity providers are funded through private equity investments, which are leveraged up to 3 to 1 by the SBA on advantageous debt and preferred equity terms. There

are three SBICs and one SSBIC based in the District. Many other SBICs and SSBICs include Washington, DC in their target markets. Even with the SBICs and SSBICs small businesses consistently report to the SBA and to the Washington, DC Small Business Development Center Network that equity capital is not readily available to them.

When equity capital is available, return expectations make it impossible for many of the District's small, predominately service-oriented businesses to obtain equity financing. SBICs and SSBICs seek returns on capital that are similar to traditional private investors to satisfy their investor base. Equity returns are expected to exceed 20%, with average returns in the 25% to 30% range, depending upon the stage of the businesses development/expansion level. With these investor return requirements, SBICs and SSBICs seek to invest in businesses with a high probability of completing an initial public offering and/or those with characteristics that are attractive to major market players; those seeking vertical and/or horizontal integration through acquisitions. These providers of equity capital state that, the majority of businesses based in the District are service-oriented. Some of them are retail business and some of them depend upon government contracts. However, underwriting/investing standards require identifiable, stable, growing cash-flow, and a strong asset-base for investment purposes, which are characteristics difficult to identify in many of the businesses discussion, therefore, ideal opportunities to meet investor return expectations are also difficult to identify.

NMVCCs were created to fill a gap that was still not being met by the SBICs and SSBICs, i.e. small businesses in "New Markets," defined as low and moderate income areas. They are also defined as those faced with a median income of 60% or less than the median income throughout the MSA. These equity providers are also funded through private equity investments, which are leveraged up to 3 to 1 by the SBA on advantageous debt and preferred equity terms. The SBA has licensed only one NMVCC to support businesses throughout the Washington, DC metropolitan area. The University of Maryland's Dingman Fund was licensed in 2001 and has a \$10 million fund, targeting small, early stage investments in companies with an expected high growth rate. No investments have been made to date.

The SBA has also developed a program called ACE-NET, which is an Internet-based network sponsored by the SBA's Office of Advocacy that gives new options to both small companies looking for investors and to investors looking for promising opportunities. ACE-NET's database marries "angel investors" with those seeking equity capital. There is typically a small charge to "angels" and/or to businesses seeking to be listed in ACE-NET databases. Within the District, there are three ACE-NET operators: 1) Howard University's Washington, DC SBDC Network's system at Howard University's School of Business, 2) the Economic Development Finance Corporation (NEDCO/EDFC) located at 1660 L Street, NW, and 3) the United States-Mexico Chamber of Commerce's National Office and Mid-Atlantic Chapter located at 1300 Pennsylvania Avenue, NW. There is also an ACE-NET program operated in Maryland through Prince George's County Economic Development Corporation. There is no comparable program available in Northern Virginia. In addition to the SBA's ACE-NET,

there are a number of local and national angel networks that the District's local, small and/or disadvantaged business community could access.

Also noteworthy is the fact that the District's Department of Banking and Financial Institutions has been preparing to develop a venture capital program that will target start-up businesses seeking equity investments between \$1 million and \$5 million. This program is still under development.

The Subgroup has determined that, the District must improve the information flow to LSDBEs concerning existing business lending and financing products and programs. It must also ensure that public and private small business lending and investing sources offer flexible and competitively-priced terms to the City's LSDBEs. The District's Department of Banking and Financial Institutions, national bank regulators local community development banks, SBICs and SSBICs targeting Washington, DC, the local NMVCC, other privately sponsored equity funds, and Community Reinvestment Act (CRA), and Officers of major lending institutions must be engaged in dialogue to address approaches and strategies for making debt and equity capital available to small and disadvantaged business in the District. The District must be proactive in looking at ways to encourage lending institutions to begin outreach efforts to provide capital to its LSDBE constituents.

4.0. Recommendations

ISSUE: The Need to Streamline and Expedite the Certification Process

Overall, the LSDBE certification and re-certification processes received mixed reviews from interviewees. Several of the developers and agency interviewees have the impression that the process is difficult and discourages applicants. On the other hand, although many LSDBEs encountered problems and delays when they went through the process, others found the certification and re-certification processes to work smoothly and commented that OLBD staff was very helpful.

Based on SBA data, the District's LSDBE program is not finding widespread appeal among the overwhelming majority of potentially qualified businesses. This is especially troubling to the Subgroup, as a common theme among the developers, agency directors, and agency procurement officers interviewed is that there are not enough certified LSDBEs to meet their procurement needs. These stakeholders say that, while they would like to use more LSDBEs, with the exception of a few in selected industries, many of the categories that they purchase from have no certified LSDBE vendors.

The Subgroup reviewed the business certification processes of the U.S. Small Business Administration, U.S. Department of Transportation, the cities of Philadelphia, Pennsylvania and Atlanta, Georgia, and the Washington Area Regional Committee on Minority Business Enterprise Certification. We found that the certification applications used by these organizations are similar to OLBD's certification application with regard to the type and volume of information

requested. Many of the actual applications appear to be modeled after the SBA 8 (a) certification program.

Recommendation:

Develop Memorandums of Understanding (MOUs) with the SBA and the Maryland/DC Minority Supplier Development Council to streamline and expedite LSDBE certifications for DC-based SBA 8 (a) and NMSDC certified businesses in certain categories.

ISSUE: The Lack of a Coordinated Technical Assistance Delivery Strategy and Implementing Program Works Against Small and Disadvantaged Businesses, Both Those Certified and Those Seeking Certification

The Technical Support and Business Assistance Subgroup focused its attention on examining ways to enhance small businesses capacity and, thereby, create a more capable, marketable and robust pool of businesses ready to compete for government and private sector business opportunities. Based on its research, the Subgroup has determined that the District must do a better job of providing its local, small and/or disadvantaged community with the resources that will aid them in taking better advantage of the LSDBE program. Such help should assist them in succeeding and getting on an equal footing with the companies against which they compete. This assistance can be provided directly or indirectly through other public sources or in the private sector.

The Subgroup believes that many more businesses could be certified as LSDBEs and many of those that are certified would reap the benefits of contract opportunities, if needed training, business advisory services, and other technical assistance are made available to them.

Recommendations:

- ◆ Contract with an organization or a consortium of business training and advisory service providers to deliver technical support and business assistance to certified LSDBEs and LSDBE applicants. Training should include small business financing and preparing firms to attract capital.
- ◆ Reconsider plans to create a business resource center within OLBD and concentrate resources on expanding the Department of Employment Services' (DOES) and Howard University Small Business Development Center's (HUSBDC) program as a model One-Stop Capital Shop.
- ◆ Expand the existing DOES/HUSBDC business incubator program by creating an incubator pilot project in a specific growth industry, funded with public and private resources. The Subgroup recommends creating the pilot program for small construction firms.

ISSUE: Need to Assess Performance Quality and Build Business Capacity and Capabilities

Quality, capacity, and capabilities are three common areas where procurement officers, agency directors, and private developers have issues with LSDBEs. The common viewpoint is that OLBD needs to provide an updated listing of LSDBEs and provide additional information about each LSDBE's skill-base, capacity, financial health, bonding capacity and prior performance. Also, additional effort should be applied to following-up with businesses being certified to ensure that they become viable contributors to their community's and the City's economic sustainability. Many stakeholders interviewed said that they would like to see an effort to follow-up with LSDBEs after projects are completed to determine how they performed. Where it is determined that they performed poorly, help to correct deficiencies should be provided. Assistance in winning contracts should also be provided. The provision of this assistance should help these firms to operate more effectively and grow. The consensus is that help should be in the areas of developing skills, and in how to successfully operate a business.

The Subgroup believes that the LSDBE certification process provides an excellent opportunity, assuming adequate staff and appropriate technical know-how, for the District to assess the technical and business assistance needs of LSDBE certification applicants, and to systematically refer them to business and technical assistance service providers capable of meeting their needs. The LSDBE certification process could be the first step to building small business capacity by getting applicants into a "pipeline" of capacity building training and advisory services. Training and other business support assistance should be designed as opportunities for LSDBEs to continuously develop their business acumen.

Recommendations:

- ◆ Develop a capacity and capabilities assessment program within the government to determine the business readiness level of new applicants and for certified LSDBEs. Where warranted certain LSDBE applicants should be referred to appropriate business training and counseling prior to award of full certification.
- ◆ Establish a vendor performance database for all vendors doing business with the District government to track and report vendor performance.

ISSUE: Need to Expand the Sources of Flexible Debt and Equity Capital Targeted to LSDBEs.

Many lenders and investors perceive that there are greater risks and greater costs involved in underwriting loans to small and disadvantaged businesses. As such, it is very difficult for these businesses to obtain appropriate financing. Further, many small and disadvantaged business owners lack the knowledge and finance to prepare applications to obtain financing.

The Subgroup feels strongly that, in addition to improving the information flow to LSDBEs about existing business lending and financing products and programs, the District must ensure that public and private small business lending and investing sources offer flexible and competitively-priced terms to the City's LSDBE population.

Recommendations:

- ◆ The District should promote the Department of Banking and Financial Institutions' (DBFI) efforts to continue partnering with financial institutions to ensure community reinvestment, community development, and to promote more lending opportunities for DC businesses.
- ◆ Promote DBFI's efforts to develop a venture capital program that can also address the financing needs of LSDBE in the District.
- ◆ Consider depositing District cash in local banks to encourage greater lending to small and disadvantaged businesses, especially those located in under-served areas of the City.
- ◆ Encourage the Office of Banking and Financial Institutions' and OLBD to jointly evaluate existing small business lending programs (micro and others) and expand the pool of funds available through small business lending institutions.